BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. DECEMBER 24, 1942

The President's Scratch-Pad

ALVIN E. DODD

Washington has been trial-ballooning its plans for a National Service Act for several months, the first ascent having been an article by Louis Stark in *The New York Times* late last summer. Now a revised draft of a proposed measure drawn up by Grenville Clark, the attorney, author of the Selective Service Act, has been laid on the desk of Paul McNutt.

The proposed legislation applies to all men between the ages of 18 and 65 and all women between the ages of 18 and 50, and would provide for the assignment of all people in those age categories to such non-military service as is considered necessary to the effective prosecution of the war. Because of the upsets it can bring into the lives of millions of people, this is probably the most drastic legislative proposal of the war period. If carried out to the full, it will work hardships on every one of us, directly or indirectly. But this is war, and we are rapidly getting accustomed to hardships. Americans can "take it" just like the British and just like the Russians. As to the justice of the legislation, if men can be compelled to give military service for an indefinite period, there is no reason why we should not be liable for industrial service.

If the legislation is needed, there should not be too much delay in passing upon it. However, before this is done two questions should be asked: (1) Will passage of the Act constitute an acknowledgment that our *voluntary* means of labor control have failed? (2) Are we making the fullest use of the industrial manpower now at work in our plants? The answers to these questions are so closely intertwined that one cannot be considered without the other.

Are we making the fullest use of manpower now employed? There is room—great room—for doubt. We persist in refusing to make a distinction between manpower and production. It is production that we need, not merely huge numbers of people working on production. It is no measure of a company's productivity to say that it employs 3,000, 8,000 or 10,000 workers. It is not *quantities* of workers that is important but *the quantity of production per worker.*

As a matter of fact, responsible industrial technicians hold that, even without asking our industrial army to work longer or harder, changes in management methods alone will increase production 25 per cent. If to this consideration we add the fact that the average American workweek is 45 hours and the British, 56, we can see the potential manpower capacity still available to us.

So far, most of the proposals for solving the manpower problem have ducked the productivity issue. All of them insist on giving effect to the "spread the work" philosophy of employment, to which the depression era gave birth. The thread of this anachronistic doctrine runs through all our wartime labor relations dealings and contracts. It is packaged under such guises as "social gains" and "worker protection," but to guarantee these things to an employee while protracting the war is giving him a hollow advantage at best.

Clearly, our problem of manpower essentially is not one of quantity, for if we want to compete with the Axis on that basis they can beat us at our own game. The slave populations of Europe and the coolie hordes of Asia are a formidable bloc. Our advantage lies in our *dynamic* manpower—a willing, thinking manpower whose cooperation comes spontaneously.

A National Service Act? If necessary, yes. *But before making it effective we must raise the standards of worker and management productivity. First:*

Should we not increase the workweek?
Should we not restudy production layouts and methods of standardization?
Should we not further reduce non-essential production? Should we not exercise greater employee discipline? Give closer scrutiny to incentive compensation? Develop stricter procedures on training, *especially upgrading?* Cast aside all union restrictions on production? Place more orders where people are idle parttime and equipment is not fully used? Cut lost time through better safety practices?

Alvin E. Dodd

BUSINESS OUTLOOK

General business sentiment and conditions continue optimistic, reflecting confidence from the recent favorable turn of world events. On the other side of the picture are harbingers of stricter governmental regulation and restriction of production and distribution of goods in 1943, as shown by further rationing in certain lines and its growing necessity in others.

Government financing broke the world's record with its new $9 billion Victory Loan campaign, intensively aimed at the general public rather than the banks, in an attempt to stem this inflationary tendency.

Production in 1943

The sources quoted on the inside of this LETTER indicate that a further increase of 10-20 per cent in the sum total or aggregate industrial production is probable, with proportionately heavier emphasis on war goods and delimitation of civilian production. This may well be the saturation point that Uncle Sam in the role of Santa Claus can produce, with his great though finite resources.

Business men, of course, want to know how long the war boom is going to last against an enemy whose armies, though weakened, are yet to be completely driven from the field of battle. Our own and the visible resources of our enemies indicate that attrition will not seriously diminish their resistance in 1943. This, of course, does not take into consideration a political peace.

Other Future Trends

National income, prices, the cost of living and wages all appear to be reacting to the ancient principle of supply and demand, which indicates rising levels in spite of all regulations, including taxation, which we know will be high.

The businessman is likely to find that in spite of the government's increasingly doing his thinking for him, he will still be able to make a profit in 1943, even if his employees are enjoying a buyer market and know it.

BUSINESS CONDITIONS & FORECASTS ....

VOL. 15, No. 12 — PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATIC

	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	National income continued upward in October for the eighth consecutive month, reaching a record high of $121,091 million, 24% above October, 1941. Preliminary information indicates a slight recession in November and a further recession in December. The total for 1942 is expected to be 120 billion, a new high record (Dec. 12).	The rise in the stock market up to early Nov. was followed by a little decline, paced by the rail group. Industrial stocks have risen somewhat this week. Tax selling often creates spotty or recessionary tendencies around this time of year. The excellent military trend has added to the recent market confusion (December 10).	For 5 weeks the index of business activity ha held steady between levels of 190 and 191. In th future such temporary plateaus are to be expecte more often. Activity still is rising and some c the biggest gains will come in the first half c 1943 when the index will cross the 200 marl At midyear it may exceed 210 (December 19)
Money and Credit	The index of total loans of reporting member banks was 61—week ended Dec. 2—8.6% under a year ago and nearer the year's low of 59.6 than its high of 67.8. Business failures decreased 30.2% in the year, the index of 33.6—week ended December 3—comparing with the year's high of 60.8 and its low of 24.3 (December 12).	Notwithstanding the increased tax burden, profits are still sufficient to make existing stock price-earning's ratio look low indeed. Selling to establish tax losses between now and the end of the year may well produce irregular fluctuations and could depress prices generally if the war news should take an adverse turn (December 10).	Money in circulation (Wed. series) in th latest week for which figures are available ros to $14,986 million from $14,848 million the pr ceding week. A year ago it was $10,834 millior Dun & Bradstreet recorded 132 business failur compared with 148 the week before and 230 year ago (December 19).
Security Markets	The past week's movement of stock prices has extended the almost directly lateral course of the market for nearly a fortnight, with the price trend taking on more the appearance of a "line" preparatory to the next ensuing move than the completion of a distribution area. Changes in bond prices have been slight (December 17).	After the rally highs of 29.28 in the Rails on Nov. 2 and 117.30 in the Industrials on Nov. 9, both averages declined. The Rails showed a substantial percentage loss. While volume on the dip has been below that of many of the strong days of the previous weeks, it has been heavier than in the summer (Dec. 10).	Standard & Poor's preliminary price index c 90 stocks rose to 74.8 during the last week fo which figures are obtainable from 74.2 the pr ceding week and 69.2 a year ago. Medium grac corporate bond yield (30 Baa issues, Moody's stood at 4.30% against 4.29% a week ago an 4.41% a year ago (December 19).
Production	The chief reason for expansion of national income in October was an increase in the quantity of goods produced to the highest figure on record, 14.6% higher than a year ago and 73.6% above pre-depression volume. Steel production, cotton mill activity and electricity output showed increases over September (December 12).	Industrial production continues at a high pitch. Over half of the current output is estimated to be for war purposes; and the added stimulus is reflected in new records of freight traffic (December 10).	With further contraction of civilian goods lik ly, lumber and textile prospects are confuse Manufacturers last week were allocated 60 more wool for civilian use in the next 8 month Out of a probable 12 billion sq. yd. cotton pr duction, lend-lease may preempt as much as 1 billion sq. yd. next year (December 19).
Distribution	The Federal Reserve Board seasonally adjusted index of the value of department store sales rose to 135 in November from 128 in October, close to July's record high of 140 and 15.8% above last year. Fairchild's retail price index showed the level to be 5.2% higher than a year ago, indicating that sales volume had gained 10% (Dec. 12).		In late 1941 and 1942, as supply dwindled an price controls tightened, sales tended to flatte while income rose. Next year when income pa ments rise 15% and sales contract 10%, this ga will widen. In the last week computed, the inde of department store sales gained 9% over th same week a year ago (December 19).
Construction	Building contracts declined from September to October but remained above last year's level. For the first 10 months of 1942 they totaled 1,101,232,000 square feet against 831,275,000 for the same period of 1941 (F. W. Dodge). Construction still provides manufacturers with good demand for their products (December 12).	Construction of added industrial electrical equipment plants will pass its peak before very long; but the accelerated rate of wear on existing facilities means high replacement demand for some types (December 10).	By mid-1943 planned expansion of capacity produce war materials—steel, aluminum, sy thetic rubber—will have largely been complete Engineering construction awards for the late week for which figures have been issued dropp to $14,343,000 from $15,409,000 a week earli (*Engineering News-Rec.*, 4-wk. dly. av. (Dec. 1
Agriculture	The Department of Agriculture reports that farm income from marketings and government benefit payments during the first 10 months of 1942 was 36% larger than a year ago, and that 1943 rates of benefit payments will be slightly lower. Senate Agricultural Committee approves House Bill revising parity prices up. (Dec. 12).		The executive order making Secretary of Agr culture Wickard food administrator means th WPB's Food Division will be scrapped. In i place Agriculture will expand and build its ow food processing and distribution organization. effect, the order means that food industry contr will start all over again (December 12).
Commodity Prices	The BLS price index of 28 basic commodities rose during the week ended December 4 to a new wartime high of 170.5 from 170.1 the preceding week. This was 8.8% above a year ago. The week's rise was due to increases in wheat, flaxseed, barley, corn, cottonseed oil, wool tops and cotton. Steers and rosin declined. (December 12).		Moody's spot commodity index for the late week for which figures are obtainable stood 235.3, as compared with 232.7 the precedin week and 217.5 a year ago (Dec. 31, 1931=100 A month ago the index was 231.8 and 6 mont ago, 228.4 (December 19).
Labor and Wages	The BLS index of factory payrolls rose to a record high peak of 261 in October from 252.1 in September and 186.8 in October last year. The greatest gain in the year period was made by machinery payrolls which increased 47.1%. The greatest loss was in typewriter payrolls which fell off 33.1% (December 12).		The President's executive order on manpow mobilization, which confers broad powers ov labor on Chairman McNutt of the War Ma power Commission, may be considered this cou try's national service act. In his sweeping juri diction he ranks every department and agency the government except the President (Dec. 12
Foreign Trade and Conditions	Italian lira slumped sharply on the Swiss market to 24 lire for 1 franc from 16 a few weeks ago. Great Britain lowered her draft age to 18. Through broadening of agriculture, diversification of production and establishment of new industries, the economic position of Latin America will be greatly strengthened (December 12).	In foreign exchange the Canadian dollar and Argentine peso are holding steady (December 10)	Donald Nelson this week reported United N tions' stocks of war materials to be on a par wi Axis supplies today and promised a 50% supe iority within a year—backed by facilities capab of outproducing the Axis nearly three to one the end of 1943 (December 12).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

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Dun's Review

Reflecting increasing war controls the business picture is rather spotted although total activity remains at record levels. Production leveled off temporarily as declines in civilian industries counterbalance rising war output. Trade inventories are shrinking but remain ample to support the all-time peak in holiday buying (January).

Bank clearings in 24 cities in November declined 11% from October; the total of $30,542,433,000 was 7% above 1941. A decline in business failures from 673 to 585 carried the seasonally adjusted insolvency index to a record low of 34.7 from 39.7 in October and 46.1 a year ago (January).

In mid-December stock markets broke out of the sidewise drift prevailing for the past month and on increased turnover the Dow-Jones industrial average rose to a new 1942 high of 118.68, topping the previous peak of 117.30 reached November 9 (January).

Production of war equipment had reached 60% of planned peaks by December and at the turn of the year was running at an annual rate of $84,000,000,000. Estimated 1942 production was $55,000,000,000 (WPB). Consumer goods output was about 15% less than at the start of the year (NYFRB) (January).

Christmas trade is at an all-time high but sales in early December were closer to last year's levels than in many weeks, influenced by reduced supplies of high-priced durable goods and the shift of considerable gift buying to October and November. Holiday sales are characterized by widespread buying of better merchandise (January).

With three-fifths of planned war construction completed, both war and non-war building are declining. The curtailment of building permits (which largely exclude war construction) continued through November when permits in 215 cities touched a new low since Feb. 1935 of $34,459,024, 63% below a year ago (January).

After holding steady throughout November commodity prices advanced to new wartime highs in December. Scoring one of the largest gains in several months the Dun & Bradstreet daily wholesale price index by mid-December had risen 4.64 points to 164.74 from 160.10 a month earlier (January).

Less essential employment, like production, has contracted to allow for war expansion. The increase in October of 2,500,000 in non-agricultural employment over 1941 was due chiefly to a rise of 1,700,000in manufacturing and of 1,211,000 in civil government. Mining and trade employment were lower (January).

Cleveland Trust Company

Prospects are that 1943 will be the toughest war year for businessmen, corporations, retail trade and small businesses not in war work. Industry under the Controlled Materials Plan will be more closely regulated, partly because the armed services will know more specifically what they want (December 15).

National income, which will amount to about $112 billion in 1942, will probably be between 15-20% greater next year. Some 50 million people will be paying taxes on 1942 incomes, compared with 17 million for 1941. The Treasury Department is trying to sell as many bonds as possible to purchasers other than banks (December 15).

To improve its methods of selling new issues of federal securities the Treasury has introduced new procedures to sell much larger proportions to the general public. It is now planned to make new offerings at 2-month intervals and to resort to the banks only after every other method has been tried (December 15).

The physical volume of industrial production (Federal Reserve Board index) will probably be more than 10% greater in 1943 than in 1942, but not more than 15%. Increases will probably include electric power, 8-14%; ingots and steel for casting, 4-6%; bituminous coal, 5%. Planes will be in vast demand (December 15).

Dollar volume of all retail store sales (Dept. of Commerce computation) will probably decrease by not less than 10 nor more than 15% next year. Cost of living, which increased by 10% this year, may rise about 5-10% more. The increase may be difficult to measure because many of the components will be rationed (Dec. 15).

Crops in 1943 will be smaller than in 1942 because farm workers will be fewer, implements older, fertilizer less ample, and especially since 1942 yields were of record-breaking size. Farmers had their most prosperous year since 1920 in 1942, and prices will almost surely remain high in 1943 (December 15).

Wholesale prices which rose 11% from 1940 to 1941, and 13% from 1941 to 1942, are likely to advance by about 4-6% from 1942 to 1943 (December 15).

Civilian employment of non-farm workers will increase in 1943, but it appears unlikely that the average numbers employed will be more than 3-5% greater than the averages of 1942 (December 15).

In 1941 military and lease-lend takings of food amounted to about 4% of supplies. This year they will account for 13% of our production and next year the proportion will be increased again, probably to 20%. Meat so taken constituted 5% of our production in 1941 and in 1943 may increase to 25% (December 15).

National City Bank

The supply of materials and labor will permit increases in production, and a rise of 15-20% in output should be possible before the peak is reached. The output of war goods should be much greater, due to further diversion of manpower, materials and plant facilities from civilian needs (December).

War expenditures jumped from $153 million in June, 1940, to well over $6 billion in November. With the new $9 billion Victory Loan campaign, the Treasury began its most important borrowing operation, calling for the biggest selling job since the Fourth Liberty Loan when $7 billion worth of securities was bought (Dec.).

Evidence of strengthening confidence has appeared in the securities markets, where prices of bonds of countries occupied or threatened by the Axis have risen sharply during the month. Shares of "peace" companies also have shown improvement, contrasting with relative weakness in heavy industry companies (December).

Industrial production increased from 122 in June, 1940 (Federal Reserve Board index) to 188 in October; and all the increase, and more, in the aggregate, has been in production of war goods. The Board states that more than 80% of durable goods production, and well over half of total production is for war (December).

Officials emphasized during the month that regulation and restriction of consumer goods production and distribution will become increasingly tighter, indicating further rationing, simplification of consumers' goods, curtailment of distributors' services, concentration of production, and standardization of models (December).

Recent business reports include more instances of revision of armament contracts and suspension of projected construction than heretofore (December).

Limitations on consumer goods production may be enforced even in industries where materials and plant facilities are adequate, in order to release labor for war work. A WPB official told the fur manufacturing industry that it may be asked to suspend operations and make its workers available for war plants (December).

When all types of taxes are considered our over-all tax burden does not appear to be as much less than Great Britain's as a comparison of income tax rates alone implies. The difference in these rates decreases rapidly in the upper brackets, and in dividends and capital gains our rates may be higher (December).

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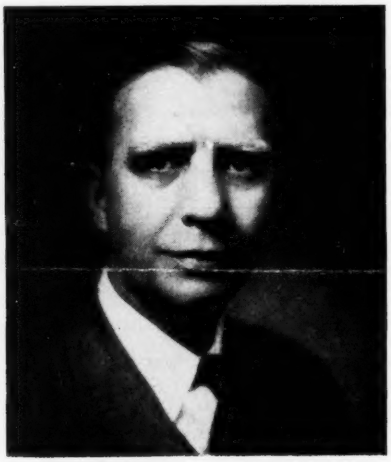
AMA To Hold Wartime Marketing Conference in Chicago, January 14-15

Forces shaping marketing policies and practices, housekeeping tasks confronting marketing men, and realistic planning in preparation for the postwar period are among the subjects which will be featured at the AMA Wartime Marketing Conference at the Hotel Drake, Chicago, January 14 and 15, 1943.

The program as announced by J. H. Macleod, Vice President, Sales Division, The



JOHN H. MACLEOD

LEONARD J. RAYMOND

Hinde & Dauch Paper Co., Sandusky, Ohio, AMA Vice President in charge of the Industrial Marketing Division, and Leonard J. Raymond, President, Dickie-Raymond, Inc., Boston, Mass., Vice President in charge of AMA's Consumer Marketing Division, has been based on a broad survey made among hundreds of marketing men. Among the subjects to be discussed are how to maintain the sales organization, how to plan the postwar sales structure, how to maintain dealer relationships, and how to cover the sales territory.

Industry concentration, standardization and simplification, and rationing and consumer habits will be the subjects of other addresses and there will be a forum on "Products, Prices, and Sales Policies Under OPA" and a panel session on "Wartime Advertising Policies and Objectives."

Dr. Gustav Egloff, Director of Research, Universal Oil Products Company, Chicago, and President, American Institute of Chemists, will address a dinner meeting on Thursday evening, January 14, on "Technology and Postwar Products"; and Dr. Philip M. Hauser, Assistant Director, Bureau of the Census, Department of Commerce, Washington, D. C., will be speaker at a luncheon meeting on January 15. His topic will be "Population Shifts and Income Changes."

Other speakers include W. R. Moore, General Sales Manager, Abrasive Division, Norton Company, Worcester, Mass.; Donald R. G. Cowan, Manager, Commercial Research Division, Republic Steel Corporation, Cleveland, Ohio; Joseph L. Weiner, Director, Office of Civilian Supply, and Chairman, Committee on Concentration of Production, War Production Board, Washington, D. C.; Willis S. MacLeod, Chief, Technical Operations, Standards Division, Office of Price Administration, Washington, D. C.; Don G. Mitchell, Vice President, Sylvania Electric Products, Inc., New York; Arthur A. Hood, Director of Dealer Relations, Johns-Manville Sales Corporation, New York; and Dr. F. R. Cawl, Director of Market Research and Sales Promotion, *The Farm Journal*, Philadelphia.

Forum and panel speakers include A. O. Buckingham, Vice President, Advertising and Market Research, Cluett, Peabody & Co., Inc., New York; C. L. Christenson, Regional Price Executive, OPA, Chicago; Edward F. Stegen, Regional Rationing Executive, OPA, Chicago; Vernon D. Beatty, Advertising Manager, Swift & Company, Chicago; Walter A. Bowe, Advertising and Public Relations Manager, Carrier Corporation, Syracuse, N. Y.; Edgar L. Schnadig, President, Chicago Mail Order Company, Chicago; H. H. Simmons, Director of Advertising and Sales Promotion, Crane Co., Chicago; Justin Weddell, Assistant to President, Union Bag & Paper Corp., N. Y.; and Paul Jordan, Regional Information Officer, Office of War Information, Chicago.

INSURANCE MEN GET HELP FOR WARTIME, FUTURE PROBLEMS AT AMA CHICAGO CONFERENCE

Buyers and other insurance executives who attended the AMA Wartime Insurance Conference in Chicago on December 8 and 9 received help on the problems of casualty and fire insurance, on war damage insurance, and plant fire protection.

They also heard prophecies from far-seeing men in insurance as to the future in the whole field of the industry and in its various components.

Chicago Conference To Stress Manpower Utilization, Feb. 10-12

The AMA Midwinter Industrial Relations Conference will take place at the Palmer House in Chicago on February 10, 11 and 12. Exhaustive research and preparations for these sessions have disclosed that problems of *manpower utilization* overshadow all other matters with which personnel and industrial relations executives are now concerned.

As a result, the Conference will devote its principal attention to this problem, presenting a comprehensive inquiry into the subject. It will be a two-pronged approach with policy discussions presented by War Manpower Commission authorities and administration techniques outlined by management officials.

Plans for the sessions are being made by a committee under the direction of Lawrence A. Appley, Vice President of Vick Chemical Company and Vice President in charge of AMA's Personnel Division.

AMA Inaugurates New Series Of Research Studies

From time to time AMA has issued research reports on current management problems to its membership. In addition, the results of research conducted by AMA committees or individual members have been presented at divisional conferences or through the Association's publications. Direct research by the AMA staff, however, has for the most part been limited to studies undertaken by the Research and Information Bureau at the request of company members.

A new series of current research reports is now under way, and a special research assistant who will devote full time to these projects has been added to the staff of the Association. Research topics will continue to be determined by the requests of company members for help on specific problems, though an attempt will be made to select topics of most general interest to the membership.

Special Research Report Number I, "The Negro Worker," will be issued this week. This study is an analysis of management experience and opinion on the employment and integration of colored workers, designed to provide practical assistance to foremen, factory managers and personnel directors who are tapping this neglected source of industrial manpower. Distribution will be restricted to those holding company memberships in the Association.

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